

# Session #10

## **Loan Repayment and Forgiveness Plans**

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# Agenda

- **Direct Loan and FFEL Repayment Plans**
- **Other Repayment Strategies**
- Direct Loan and FFEL Discharges and Forgiveness
- ED Services and Loan Servicing Tools
- Appendix

# Understanding Repayment Plans

Student borrowers may repay their student loans through one of the several repayment plans:



**Standard Repayment Plan**

**Graduated Repayment Plan**

**Extended Repayment Plan**

**Income-Based Repayment (IBR)**

**Income-Contingent Repayment (ICR) (Direct Loan only)**

**Income-Sensitive Repayment (FFEL only)**

**Alternative Repayment Plans (Direct Loan only)**

# Understanding Repayment Plans

Under this plan, the borrower will pay a fixed amount of at least \$50 each month for up to 10 years. For most borrowers, this plan results in the lowest total interest paid because the repayment period is shorter than it would be under any of the other repayment plans.  
(Subsidized, Unsubsidized and PLUS Loans)

**Standard Repayment Plan**

**Graduated Repayment Plan**

**Extended Repayment Plan**

**Income-Based Repayment (IBR)**

**Income-Contingent Repayment (ICR) (Direct Loan only)**

**Income-Sensitive Repayment (FFEL only)**

**Alternative Repayment Plans (Direct Loan only)**



Consolidation borrowers have a repayment period of 10 - 30 years depending on their total loan indebtedness.



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# Understanding Repayment Plans

The Graduated Repayment Plan may be beneficial if the borrower's income is low when they leave school but is likely to steadily increase. Under this plan, payments start out low and then increases every two years. The minimum payment equals the amount of interest that accrues monthly for up to the maximum repayment period.

Like the Standard Plan, the maximum repayment period is 10 years for Subsidized, Unsubsidized, and PLUS Loans and 10-30 years for Consolidation Loans depending on the total loan indebtedness.

Standard Repayment Plan

**Graduated Repayment Plan**

Extended Repayment Plan

Income-Based Repayment (IBR)

Income-Contingent Repayment (ICR) (Direct Loan only)

Income-Sensitive Repayment (FFEL only)

Alternative Repayment Plans (Direct Loan only)



# Understanding Repayment Plans

Number of Monthly Payments under the **Standard** and **Graduated** Repayment Plans for Consolidation Loans based on the Total Student Loan Indebtedness Amounts

If the Total Education Indebtedness is		Maximum Number of Monthly Payments
At Least	Less Than	
\$7,500	\$7,500	120 (10 years)
\$10,000	\$10,000	144 (12 years)
\$20,000	\$20,000	180 (15 years)
\$40,000	\$40,000	240 (20 years)
\$60,000	\$60,000	300 (25 years)
		360 (30 years)



# Understanding Repayment Plans

A borrower may choose this plan if they did not have an outstanding balance on a FFEL or Direct Loans as of October 7, 1998 or on the date they obtained a student loan after that date **and** have more than \$30,000 in outstanding FFEL loans or more than \$30,000 in outstanding Direct Loans.

*For example...*

A borrower that has \$35,000 in outstanding FFEL Program loans and \$10,000 in outstanding Direct Loans can choose the Extended Plan for their FFEL loans, but not for their Direct Loans.



Standard Repayment Plan  
Graduated Repayment Plan  
**Extended Repayment Plan**  
Income-Based Repayment (IBR)  
Income-Contingent Repayment (ICR) (Direct Loan only)  
Income-Sensitive Repayment (FFEL only)  
Alternative Repayment Plans (Direct Loan only)

- ❖ Borrower may choose to make fixed or graduated monthly payments
- ❖ Minimum payment of \$50 for Fixed Extended
- ❖ Maximum repayment period is 25 years



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# Understanding Repayment Plans

## Income-Based Repayment (IBR)

Under this plan, the required monthly payment is capped at an amount intended to be affordable based on the borrower's income and family size. The maximum repayment period is 25 years and if certain requirements are met, any remaining balance will be cancelled.

Only FFEL or Direct Stafford, Grad PLUS and Consolidation (that did not pay a Parent PLUS) loans that are currently not in default are eligible for repayment under IBR.





# Understanding Repayment Plans

## Income-Based Repayment (IBR)

A borrower is eligible to repay under IBR if the monthly payment amount calculated under the 10-year Standard repayment plan is **MORE** than the IBR monthly payment amount. (Borrower deemed to have “partial financial hardship” [PFH].)

- ❖ Monthly payment is based on the borrower’s Adjusted Gross Income (AGI), family size, and state of residence
- ❖ The minimum monthly payment may be as low as \$0 or \$10 depending on the calculated IBR amount

# Understanding Repayment Plans

## Income-Based Repayment (IBR)

- ❖ Borrower provides AGI or alternative income documentation annually to determine eligibility and calculate IBR payment amount – IBR payment amount may change
- ❖ If multiple loan holders, borrower must apply to each and IBR payments pro-rated

# Understanding Repayment Plans

## Income-Based Repayment (IBR)

- ❖ If payment is less than accrued interest on subsidized loan (or subsidized portion of consolidation loan), the Department pays difference for up to 3 consecutive years from IBR repayment start date
- ❖ If borrower no longer shows PFH, payment recalculated on 10-year standard repayment and unpaid interest capitalized

# Understanding Repayment Plans

## Income-Based Repayment (IBR)

### Leaving IBR:

- ❖ Borrower must repay outstanding balance under Standard Repayment plan (10-year standard or consolidation loan standard) with time in IBR counted in maximum repayment time
- ❖ Any unpaid interest capitalized

# Understanding Repayment Plans

## Income-Based Repayment (IBR)

### Advantages of IBR

- ❖ Affordable payment (including \$0)
- ❖ The government will pay the unpaid interest on subsidized loans for up to three consecutive years if the monthly IBR payment does not cover the monthly accrued interest
- ❖ Any remaining principal and interest will be cancelled after 25 years of repayment
- ❖ IBR payments count for Public Service Loan Forgiveness

### Disadvantages of IBR

- ❖ More interest paid over the life of the loan
- ❖ To continue reduced payments under IBR, a borrower must submit updated information on income and family size each year



# Understanding Repayment Plans

## Income-Contingent Repayment (ICR)

A repayment plan for Direct Loans only that bases a borrower's monthly payment on yearly income, family size, and loan amount. As their income rises or falls, so does their payments. After 25 years, any remaining balance on the loan will be forgiven, but the borrower may have to pay taxes on the amount forgiven.

*What are the benefits?*

High loan debt and low income could actually mean a calculated payment of \$0.

# Understanding Repayment Plans

## Income-Sensitive Repayment (ISR)

A FFEL-only repayment plan that is lender-specific and bases the scheduled monthly payment on borrower's annual income. Payment amount increases or decreases based on income change. Maximum repayment period is 10 years (except on a consolidation loan) and borrower must reapply each year.



Monthly payments may be increased for the remaining term of the loan to compensate if the borrower receives decreased payments under ISR.



# Understanding Repayment Plans

## Alternative



An alternative repayment plan is a Direct Loan-only plan that may be used when the terms and conditions of other repayment plans are not adequate to accommodate a borrower's circumstances. The borrower must provide evidence of the exceptional circumstance and the terms must be within the following restrictions:

- maximum 30-year term
- minimum payment of \$5.00
- payments cannot vary by more than 3x the smallest payment

There are four different Direct Loan Alternative Repayment Plans:

Alternative Fixed Payment, Alternative Fixed Term, Alternative Graduated and Alternative Negative Amortization



# Other Repayment Strategies

## Loan Consolidation

### *Benefits of Consolidation:*

- One Lender and One Monthly Payment
- Flexible Repayment Options
- Lower Monthly Payments
- It's free

Starting July 1, 2010, a borrower can consolidate their loans while still in-school until June 30, 2011.

*Reminder ....*

Borrowers will lose their grace period by consolidating while in an in-school status



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# Other Repayment Strategies

## Deferments and Forbearances



Borrowers may experience trouble making payments under any repayment plan. Deferment and forbearance options may be the right choice to assist them in staying on the right road.

# Agenda

- Direct Loan and FFEL Repayment Plans
- Other Repayment Strategies
- **Direct Loan and FFEL Discharges and Forgiveness**
- **ED Services and Loan Servicing Tools**
- **Appendix**

# Loan Discharges

Discharge or cancellation is the release of a borrower from their obligations to repay their student loans.

- ❖ Closed School
- ❖ Unpaid Refund
- ❖ False Certification
  - School-based
  - Identity Theft
- ❖ Bankruptcy
- ❖ Total and Permanent Disability
- ❖ Death (including death of a dependent for parent PLUS loans)



# Loan Forgiveness

Borrowers may qualify to have all or a portion of their loan forgiven under the following forgiveness programs:

- ❖ Teacher Loan Forgiveness
- ❖ Public Service Loan Forgiveness
- ❖ Service as Civil Legal Assistance Attorney
- ❖ Service in Areas of National Need (no appropriations)



# Teacher Loan Forgiveness

The Teacher Loan Forgiveness Program was established to encourage individuals to enter and remain in the teaching profession. This program grants loan forgiveness of up to \$17,500 for teachers in certain specialties and up to \$5,000 for other teachers after five consecutive years of teaching in certain low-income schools.

The benefit is available to borrowers who did not have an outstanding balance on a FFEL or Direct Loan on October 1, 1998, or on the date they obtained a loan after October 1, 1998.





# HEOA Teacher Loan Forgiveness Changes



- Full-time teachers employed by Educational Service Agency (ESA)
- States will identify eligible ESAs for ED Directory of Designated Low-Income Schools
- Same eligibility criteria and forgiveness amounts (low-income; 5 consecutive years; up to \$5,000 or \$17,500)
- For ESA teachers, 5 consecutive years qualifies only if it includes ESA service performed after 2007-2008 academic year for service begun prior to effective date



# Public Service Loan Forgiveness

Established to encourage individuals to enter and continue in full-time public service employment by forgiving the outstanding balance on an eligible Direct Loan if the borrower:

- ❖ Is not in default
- ❖ Makes 120 separate, full monthly payments, within 15 days of the due date, after October 1, 2007 under one or more specified repayment plans
- ❖ Is employed full-time at a public service organization while making the 120 required payments, when requesting forgiveness, and when forgiveness is granted



# Public Service Loan Forgiveness

To take advantage of this benefit, borrower must have one of the following eligible loans:

- ❖ Federal Direct Subsidized Stafford
- ❖ Federal Direct Unsubsidized Stafford
- ❖ Federal Direct PLUS Loan for parent and grad/professional students
- ❖ Federal Direct Consolidation



Borrowers may also consolidate their FFEL, Federal Perkins or certain Health Professions and Nursing Loans into the Direct Loan Program to qualify.

# Public Service Loan Forgiveness

## Payments

- The required 120 monthly payments must be made under any one or combination of the:
  - Income-Contingent Repayment (ICR) Plan
  - Income-Based Repayment (IBR) Plan
  - 10-year Standard Repayment Plan
  - Any other repayment plan if monthly payments equal at least the amount required under the 10-year Standard Repayment Plan



# Public Service Loan Forgiveness

## Eligible public service includes:

- ❖ Service in a position in AmeriCorps or the Peace Corps
- ❖ Local, State, Federal or Tribal government position (excluding time served as a member of the U.S. Congress)
- ❖ Employment, in any position, by any other public service organization

## Employment must meet the definition of “full-time”.

- ❖ “Full-time” generally means the borrower is working an average of at least 30 hours per week or the number of hours the employer considers full-time

# Public Service Loan Forgiveness

## Public Service Organization means:

- ❖ A Federal, State, Local or Tribal government organization, agency or entity
- ❖ A public child or family service agency
- ❖ A non-profit organization under 501(c)(3) of the Internal Revenue Code that is exempt from taxation under Section 501(a) of the Internal Revenue Code
- ❖ A Tribal college or university
- ❖ A private organization that:
  - Provides certain public services
  - Is not a business organized for profit

An PSLF fact sheet and Q&A  
is available on  
[www.StudentAid.ed.gov](http://www.StudentAid.ed.gov)

# Civil Legal Assistance Attorney

## Civil Legal Assistance Attorney Student Loan Repayment Program



Intended to encourage qualified individuals to enter and continue employment as civil legal assistance attorneys. The Secretary is authorized, contingent on annual appropriations, to repay a portion of the outstanding balance of eligible FFEL, Direct or Perkins Loans obtained by borrowers who are employed full-time as civil legal assistance attorneys.

Congress appropriated \$5,000,000 for FY 2010. Future appropriations are uncertain.



# Civil Legal Assistance Attorney

- ❖ Provides benefits to borrowers on a first-come, first-served basis up to amount appropriated for the fiscal year by U.S. Congress
- ❖ Borrower may receive up to \$6,000 for each year, up to a total amount of \$40,000 per borrower
- ❖ Borrower signs Service Agreement with Secretary to perform qualifying service full-time for not less than three years for any benefits received (Same service cannot count for PSLF and repayment required if service not completed.)
- ❖ Borrower must be employed by non-profit organization, protection and advocacy system, or client assistance program
- ❖ Eligibility Criteria and Procedures contained in Federal Register Notice Published July 7, 2010
- ❖ Application Deadline: August 16, 2010; FY 2010 funds fully committed

# ED Federal Loan Servicers

As of July 2010, the Department has five federal loan servicers.

Our federal loan servicers are:

- ❖ Direct Loan Servicing Center (ACS)
- ❖ FedLoan Servicing (PHEAA)
- ❖ Great Lakes Educational Loan Servicers, Inc.
- ❖ Nelnet
- ❖ Sallie Mae Corporation



# Successful Repayment

To help ensure a successful repayment experience for the borrower, we provide tools to schools and borrowers and have servicers that provide interactive tools, loan calculators and counseling aids for use during all points in the loan life-cycle. These tools enable students and parents to access data, information, calculators, and customer service representatives.

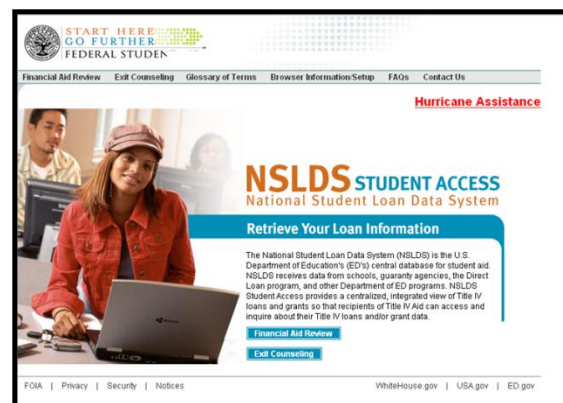
# Tools for Schools and Borrowers

## □ Counseling Tools

- Entrance Counseling  
([www.StudentLoans.gov](http://www.StudentLoans.gov))  
(For Direct Loan borrowers)

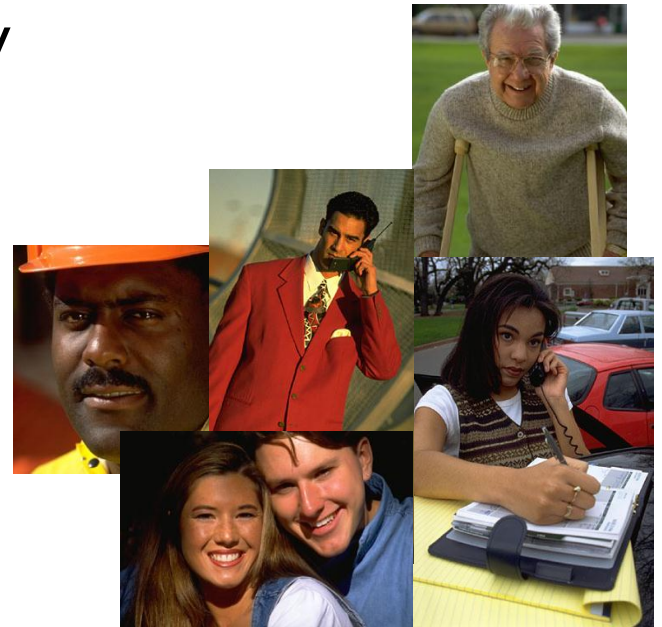


- Exit Counseling  
([www.NSLDS.ed.gov](http://www.NSLDS.ed.gov))  
(For FFEL and Direct Loan borrowers)



# Tools for Schools and Borrowers

- Payment Due Date Flexibility
- Entitlements
  - Deferments
  - Forbearances
  - Discharges
  - Forgiveness Programs
- Loan Consolidation



# Borrower and School Services

## Our Servicers:

- Educate and inform borrowers as to the tools and options available to assist them in the management of their student loans
- Offer multiple repayment options tailored to borrower preferences (i.e. Online payments, ACH, check, etc.)
- Provide self-service tools for borrowers and options for receiving bills and/or correspondence electronically
- Offer dedicated services to schools to help manage cohort default rates

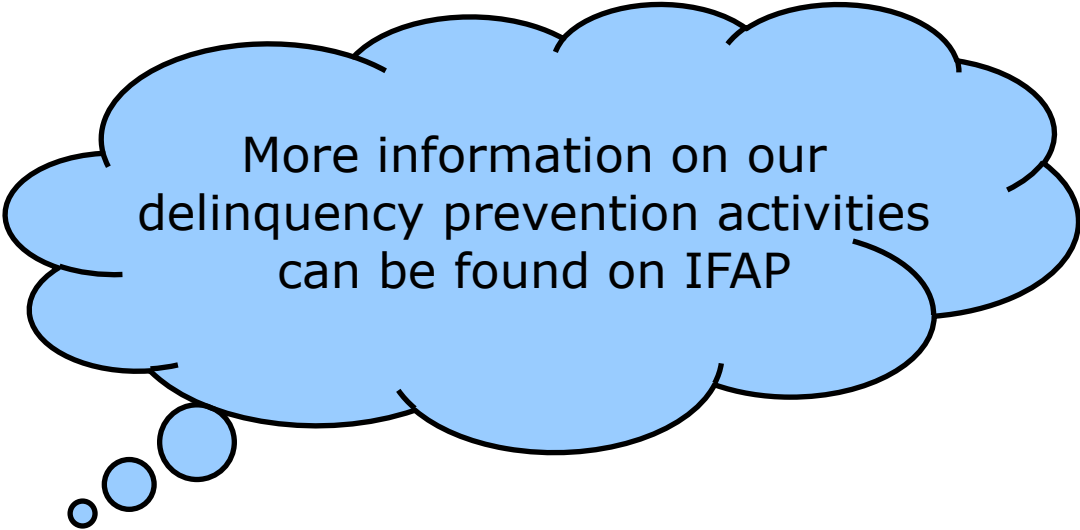
# Default Prevention Activities

When borrowers become delinquent, the servicers make every effort to get them back on the “right road”.

- ❖ Our call centers phone borrowers when they are most likely to be home
- ❖ Have the ability to apply a forbearance over the phone
- ❖ Interactive website
  - helps borrowers identify the best delinquency resolution option

# Default Management Activities

Our federal loan servicers have default reduction tools and efforts targeted to borrowers who are between 270 and 360 days delinquent. Some efforts include partnering with schools to assist with reaching borrowers at greatest risk to avoid default.



More information on our delinquency prevention activities can be found on IFAP



# Resources

## General Servicing Information

- ❖ Electronic Announcement – Loan Servicing Information

<http://www.ifap.ed.gov/eannouncements/032610LoanServicingInfoFedOwn.html>

## Income-Based Repayment (IBR) Plan

- ❖ IBR Fact Sheet

[http://studentaid.ed.gov/students/publications/factsheets/factsheet\\_IncomeBasedRepayment.pdf](http://studentaid.ed.gov/students/publications/factsheets/factsheet_IncomeBasedRepayment.pdf)

- ❖ IBR Q&A

[http://studentaid.ed.gov/students/attachments/siteresources/IBRQ&A\\_template\\_123109\\_FINAL.pdf](http://studentaid.ed.gov/students/attachments/siteresources/IBRQ&A_template_123109_FINAL.pdf)

## Public Service Loan Forgiveness Program

- ❖ PSLF Fact Sheet

<http://studentaid.ed.gov/students/attachments/siteresources/LoanForgivenessv4.pdf>

- ❖ PSLF Q&A

[http://studentaid.ed.gov/students/attachments/siteresources/PSLF\\_QAs\\_final\\_02%2012%2010.pdf](http://studentaid.ed.gov/students/attachments/siteresources/PSLF_QAs_final_02%2012%2010.pdf)

## Delinquency and Default Management

- ❖ Electronic Announcement – Delinquency Prevention Activities

<http://www.ifap.ed.gov/eannouncements/060310LoanServicingInfoDelinqPreventAct.html>

# Resources - Federal Loan Servicers

**Direct Loan Servicing Center**  
NSLDS Servicer Code: 00100

NSLDS Name: **Direct Loan  
Servicing Center**

**Borrower Phone:** 800-848-0979

**Web:** [www.dl.ed.gov](http://www.dl.ed.gov)

**School Phone:** 888-877-7658

**Web:** [www.dl.ed.gov/schools](http://www.dl.ed.gov/schools)

**FedLoan Servicing (PHEAA)**  
NSLDS Servicer Code: 700579

NSLDS Name: **Dept of ED/ FedLoan  
Servicing (PHEAA)**

**Borrower Phone:** 800-699-2908

**Web:** [www.myfedloan.org](http://www.myfedloan.org)

**School Phone:** 800-655-3813

**Web:** [www.myfedloan.org](http://www.myfedloan.org)

**Great Lakes Educational Loan  
Services**

NSLDS Servicer Code: 700581

NSLDS Name: **Dept of ED/ Great  
Lakes**

**Borrower Phone:** 800-236-4300

**Web:** [www.mygreatlakes.org](http://www.mygreatlakes.org)

**School Phone:** 888-686-6919

**Web:** [www.mygreatlakes.org](http://www.mygreatlakes.org)

**Nelnet**

NSLDS Servicer Code: 700580

NSLDS Name: **Dept of ED / Nelnet**

**Borrower Phone:** 888-486-4722

**Web:** [www.nelnet.com](http://www.nelnet.com)

**School Phone:** 866-463-5638

**Web:** [www.nelnetloanservicing.com](http://www.nelnetloanservicing.com)

**Sallie Mae**

NSLDS Servicer Code: 700578

NSLDS Name: **Dept of ED / Sallie Mae**

**Borrower Phone:** 800-722-1300

**Web:** [www.salliemae.com](http://www.salliemae.com)

**School Phone:** 888-272-4665

**Web:** [www.opennet.salliemae.com](http://www.opennet.salliemae.com)



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# Appendix – Applicable Legislation: Health Care & Education Reconciliation Act (HCERA) of 2010

- Public Law 111-152
- Enacted March 30, 2010
- Amended the HEA to provide that new borrowers, on or after July 1, 2014:
  - Qualify for IBR if borrower's standard repayment exceeds 10% of discretionary income
  - Make an IBR payment of 10% of discretionary income
  - Receive IBR forgiveness after 20 years instead of 25 years



# Higher Education Opportunity Act (HEOA)

- Public Law 110-315
- Enacted August 14, 2008
- Amended HEA to:
  - Extend Teacher Loan Forgiveness to full-time teachers employed by an educational service agency (ESA)
  - Include new eligibility standards for title IV loan total and permanent disability discharges

# Higher Education Opportunity Act (HEOA)

- Amended the HEA to:
  - Authorize FFEL and Direct Loan forgiveness for service in areas of national need (no appropriations)
  - Authorize loan repayment of Perkins, FFEL and Direct Loans for civil legal assistance attorneys (To date, \$5,000,000 for FY 2010 only)

# College Cost Reduction and Access Act of 2007 (CCRAA)

Public Law 110-84, enacted Sept. 27, 2007

- Amended the Higher Education Act (HEA) by adding:
  - Public Service Loan Forgiveness to Direct Loan Program (HEA section 455(m))
  - Income-Based Repayment (IBR) to Direct Loan and Federal Family Education Programs (HEA section 493C)

# Applicable Regulations

- Final (CCRAA) Rule published October 23, 2008:  
[www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf](http://www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf)
- Final Rule (HEOA) published October 29, 2009:  
[www.ifap.ed.gov/fregisters/attachments/FR10292009.pdf](http://www.ifap.ed.gov/fregisters/attachments/FR10292009.pdf)

# Contact Information

We appreciate your feedback and comments.

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